Cash Management Funds Are Not Bank Deposits: Check the Risk

Description

A money market fund is an investment, not a bank deposit.

Its manager may aim to preserve capital and liquidity, but returns and principal are not guaranteed, redemption may not be instant, and investment products are not covered by Singaporeâ??s Deposit Insurance Scheme.

Identify the legal product

A marketing label such as cash management does not decide whether the underlying vehicle is a deposit, fund or combination. Find the issuer, scheme name and Product Highlights Sheet. (SDIC consumer guide)

SDIC covers eligible Singapore-dollar deposits up to S$100,000 per depositor per scheme member in aggregate. Foreign-currency deposits, structured deposits and other investment products are not insured.

Situation	What changes
Money must be available instantly	Keep the required amount in an appropriate transaction deposit
Product is a unit trust or fund	Read the PHS for capital, credit, liquidity and redemption risks
Advertised yield is higher than a bank account	Compare net yield after fees and without assuming the rate continues
Cash is an emergency reserve	Split by access deadline and tolerance for small losses or delays

Related: calculate insured deposits by scheme member

Read the capital warning

A money market fund may seek to preserve value but can state expressly that capital and returns are not guaranteed. Record the worst plausible loss and whether the NAV can fall below purchase value. (MAS OPERA money market scheme record)

An app may accept a redemption instantly while settlement takes one or more business days. Test cut-off, weekends, holidays and where proceeds are paid.

Example: If S$30,000 of emergency cash includes S$8,000 needed within 24 hours, the access test may justify keeping at least that S$8,000 in an appropriate instant-access deposit rather than a fund.

Compare net yield

Subtract management, platform and transaction costs and note that a displayed annualised yield can change. Do not compare yesterdayâ??s fund yield with a fixed depositâ??s guaranteed contracted rate as if both were fixed.

Match each cash layer to the bill or crisis it must cover. Keep immediate needs outside a vehicle whose value or settlement could move.

- Identify the underlying vehicle
- Open the PHS and prospectus
- Check SDIC coverage
- Record settlement time
- Subtract all fees from yield
- Stress-test a delay or small NAV loss
- Keep immediate bills in the right cash layer

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